United States Department of Agriculture

Foreign Agricultural Service

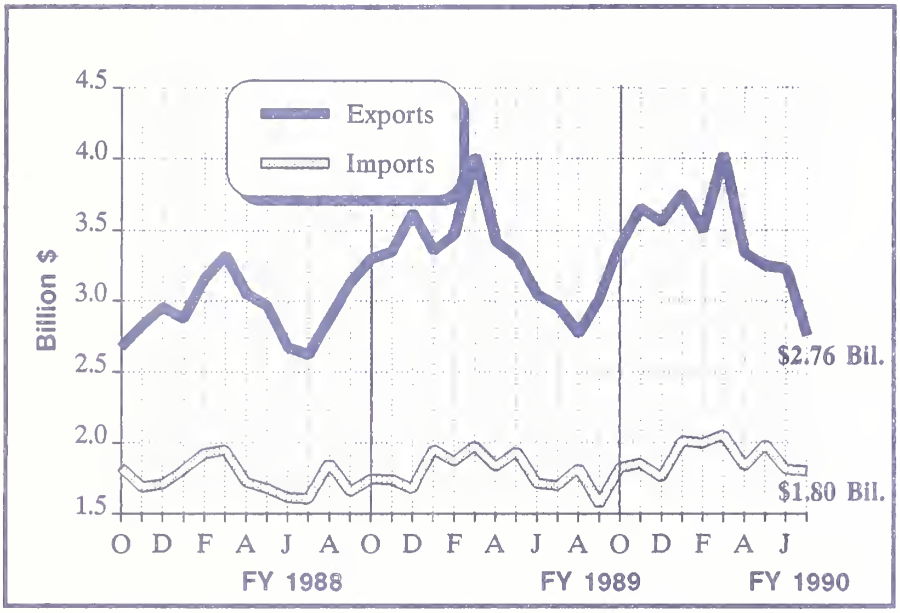
Circular Series

ATH 9-90

September 1990

AGRICULTURAL TRADE HIGHLIGHTS

Exports Drop to Lowest Level in Two Years



July trade data released by the Commerce Department on September 18 placed U.S. agricultural exports at $2.76 billion and 9.5 million metric tons, down $470 million and 1.3 million tons from June's level. Compared with July 1989, this month's exports fell by nearly $200 million.

July's performance brought the cumulative export total (October-July) for fiscal 1990 to $34.5 billion and 128.7 million tons. This is a modest increase of 2 percent in value and 3 percent in volume from last year.

Significant declines for July from year-ago levels came from wheat (down 48 percent to $304 million), cotton (down 45 percent to $158 million), and rice (down 61 percent to $36 million). Commodities that experienced significant gains included corn (up 15 percent to $465 million), horticultural products (up 33 percent to $442 million), and sugar and tropical products (up 41 percent to $113 million).

A large chunk of July's export decline can be attributed to sharply reduced exports to China, down $124 million from July 1989. Over $90 million of this was due to lower wheat sales. Other notable declines were seen for the Soviet Union (down $69 million) and the European Community (EC) (down $21 million).

Japan led the way in July as the largest market for U.S. agricultural products with exports totaling $649 million. Canada came in a distant second with $362 million, followed by the EC with $293 million, Mexico with $218 million, and South Korea with $217 million.

On August 28, USDA issued its final export forecast for fiscal 1990. The value of U.S. agricultural exports was unchanged from the May forecast of $40 billion. However, total volume was reduced 1.5 million tons to 148.5 million tons. This volume decline is mainly due to weaker prospects for wheat, which more than offset expected gains in corn, soybeans, and soybean meal.

Agricultural imports for July totaled $1.80 billion, down $100 million from June but up $110 million from July 1989. For fiscal 1990-to-date, imports totaled $19.1 billion, up $980 million from last year. Imports are forecast to reach a record $22.5 billion by the end of the fiscal year, a $500 million increase from the May forecast.

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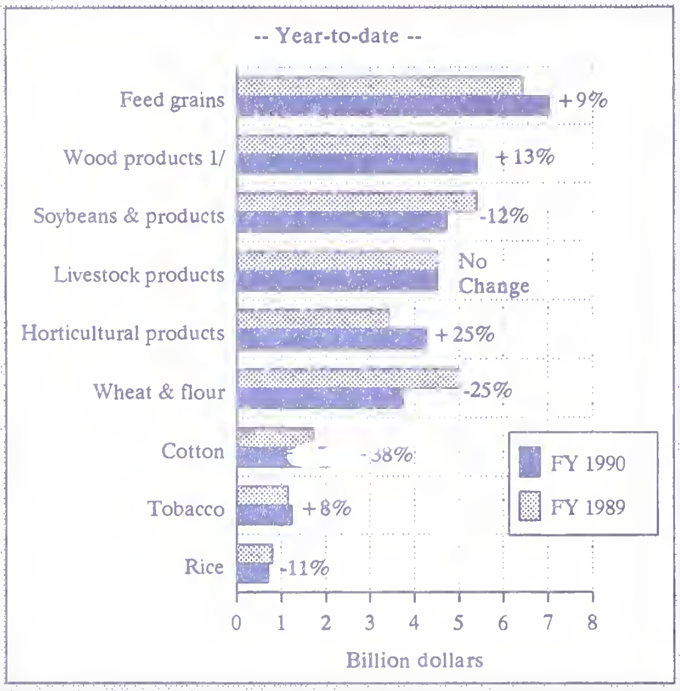

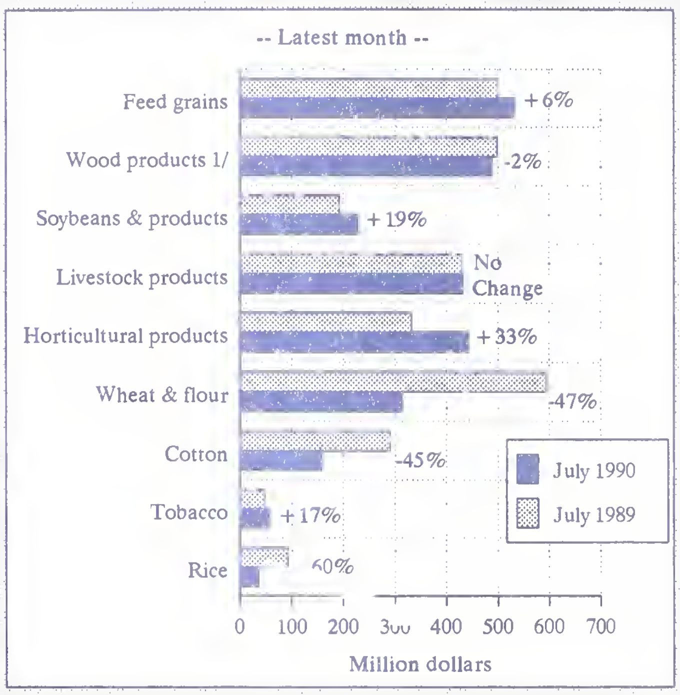

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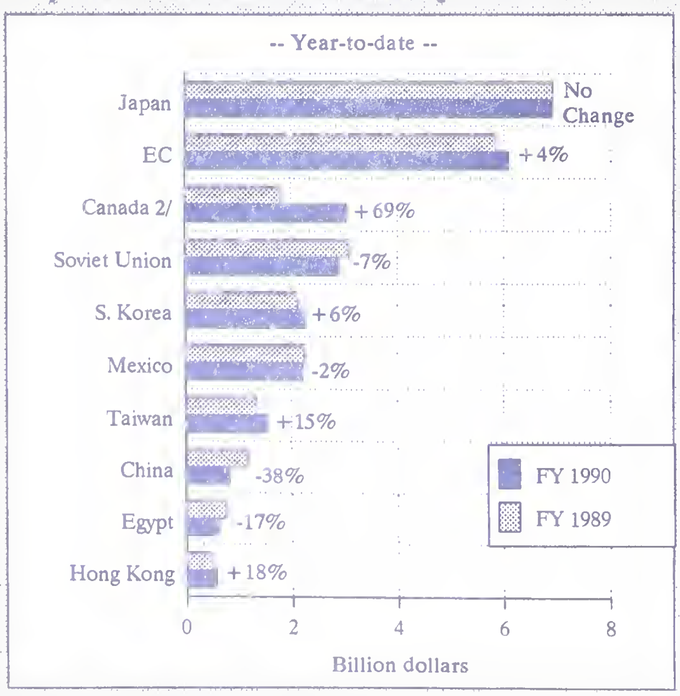
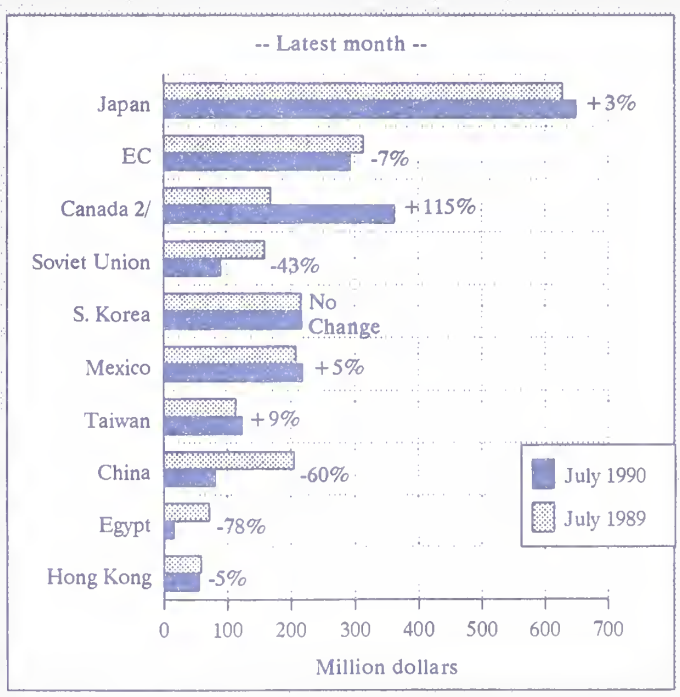




Note: Percentages are computed as the change from a year ago.

1/ Not included in agricultural totals. 2/ U.S. agricultural exports to Canada have been under-reported in past years by about $1 billion a year and officially recognized by both Governments. Effective January 1990, the U.S. Bureau of the Census began adjusting U.S. export statistics to account for these differences.

Commodity Highlights

At $2.76 billion, export value in July registered its lowest monthly level since July 1988. Value for the month was down 7 percent from a year ago while volume of 9.5 million metric tons was down 12 percent. July's totals brought fiscal year-to-date exports to $34.4 billion and 129 million tons. On August 28, USDA released its final fiscal 1990 export forecasts. Value remained unchanged from May at $40 billion. However, expectations of weaker wheat sales led to the 1.5-million ton downward revision of May's volume forecast to 148.5 million tons.

July's exports of *wheat and flour* amounted to $314 million and 2.2 million tons, a drop of $280 million and 1.5 million tons from July 1989. Cumulative exports reached $3.7 billion, $1.3 billion below the first 10 months of fiscal 1989, and 24 million tons. Sluggish wheat sales have caused the forecast to be revised downward nearly 4 million tons from May's estimate to 29.5 million tons. Value has also been revised downward to $4.6 billion. The largest declines are expected in sales to China.

Corn sales advanced from last year's level in July, offsetting much lower sales of sorghum, oats, and rye. Overall *feed grain* sales rose $33 million and 97,000 tons from a year ago, totaling $533 million and 4.3 million tons for the month. Continuing strong demand from Mexico and the Far East contributed significantly to this year's sales of $7 billion and 61 million tons. It has also resulted in $100 million and 2 million ton increases in the coarse grain export forecast. By year-end, these exports are expected to reach $8 billion and 69.2 million tons.

Rice again experienced the largest percentage decline from a year ago, plummeting 61 percent in value to $36 million and 58 percent in volume to 114,000 tons. This was due in large part to lower purchases from the Middle East. Year-to-date value was also down from $806 million in 1989 to $719 million, with a related decline in volume from 2.5 to 2.2 million tons. August's forecast remained unchanged from May at $800 million and 2.4 million tons.

A jump in soybean and soybean meal exports led to the 19-percent value and 37-percent volume gains from last July in *soybean and product* sales. Improved prospects for soybeans and meal brought about the $200-million increase in projected year-end soybean and product exports. Sales are now projected to total $5.2 billion and 22 million tons, down 10 percent in value but up 12 percent in volume from 1989 levels.

In keeping with recent trends, *cotton* sales were again down from year-ago levels. At $158 million and 98,000 tons, exports fell $132 million and 101,000 tons below last year's monthly figures. Of the major markets, Japan and China showed the most contraction. Exports for the year, however, are still well ahead of last year, amounting to $2.4 billion and 1.5 million tons. No changes were made in May's fiscal 1990 forecast of $2.9 billion and 1.8 million tons.

Unmanufactured tobacco exports posted healthy gains for yet another month, rising 17 percent in value to $56 million and 22 percent in volume to 9,000 tons. Major advances in sales to Hong Kong and Turkey were largely responsible. Year-to-date exports were also up, reaching $1.2 billion and 198,000 tons. The continued strength of tobacco exports led to a $100-million increase in the fiscal 1990 forecast, which is now expected to reach $1.4 billion. Volume is projected to measure 200,000 tons.

July's *livestock* sales amounted to $432 million, compared to $430 million a year ago. Cumulative exports, at $4.5 billion, were slightly above fiscal 1989's 10-month total. No revisions to May's forecast of $5.5 billion were deemed necessary in August.

Horticultural products registered the greatest percentage increase from last July. Firmer prices caused value to rise 33 percent to $446 million while volume remained relatively unchanged at 493,000 tons. To date, exports total $4.2 billion and 5.1 million tons, up 25 and 17 percent, respectively, from fiscal 1989. Much of this gain is due to changes in statistical reporting with Canada. May's forecast for horticultural products remained unchanged in August at record levels of $5 billion and 4.5 million tons.

July's exports of *wood products* dropped a modest 2 percent from a year ago, to $486 million. However, year-to-date U.S. wood product exports showed a strong gain of 13 percent to $5.4 billion. The market showing the largest growth thus far in fiscal 1990 is Canada, up 55 percent from 1989.

For more information, contact Kathleen Anderson, (202) 382-9055.

Top Five Markets for Major U.S. Commodities

October-July Comparisons

Note: Percentages are computed as the change from fiscal 1989 to fiscal 1990.

Country Spotlight: Canada

Not only is Canada one of the world's largest agricultural importers, it is also one of the best prospects for future U.S. export growth according to a recently published White House study. During the 1980's this market experienced steady growth of 3 percent per year, and in 1990 imports are expected to reach their highest level yet. Many of these products will come from Canada's largest trading partner, the United States. The U.S. share of the Canadian market is 58 percent.

U.S. sales of $3.0 billion in the first 10 months of fiscal 1990 have made Canada the third largest foreign market for U.S. agricultural products. Exports to Canada by year-end are projected to reach $3.4 billion. This figure reflects an $800 million increase over 1989's figure to correct for the change in statistical reporting and a real increase of $400 million for U.S. exporters. Significant exports this year will include fresh vegetables, noncitrus fruit, beef, and soybean meal. The outlook for further expansion of beef, cotton, poultry, chocolate, and pasta exports is promising.

Canadian beef imports rose dramatically throughout the 1980's. In the 8 years from 1982 to 1989 alone, total beef imports on a carcass weight equivalent basis doubled, making Canada one of the world's largest beef importers in per capita terms. The United States became the dominant supplier of beef to the Canadian market in 1988. During the 1990's it is expected to improve its position in this market as a result of the increasing demand for U.S. beef in the highly-populated areas of eastern Canada. Exemption from Canadian meat laws under the U.S.-Canada Free Trade Agreement will also benefit U.S. beef exporters.

U.S. cotton exports have recently been competitive in the Canadian market. All of Canada's raw cotton needs are met through imports which are now supplied mainly by the United States. Although U.S. cotton sales to Canada totaled only $58 million in 1989, exports should expand quickly in the next few years due to the increasing competitiveness of U.S. cotton, and the fact that U.S. cotton is preferred for its quality.

Canadian consumers share the same dietary concerns as U.S. consumers. Regard for lower cholesterol consumption has hiked Canadian demand for poultry. Canadian poultry production is controlled by national marketing agencies, and is typically below the level of domestic demand. The excess demand is then filled by imports, which are restricted by global import quotas. While quotas are important limiting factors, they were expanded slightly under the Free Trade Agreement and may be expanded further after the Uruguay Round negotiations.

Because the Canadian market is much like that of the United States, opportunities for sales of high-value items such as chocolate, pasta, and horticultural products are growing. The United States currently dominates the Canadian high-value market and will mostly likely improve its market share in the near future.

Exports of some high-value and other products will benefit from the reductions in tariff and nontariff barriers which are provisions of the Free Trade Agreement. Other contributing factors to strong Canadian imports of U.S. products include continued economic growth, increased consumer purchasing power, competitive U.S. commodity prices, and favorable exchange rates.

For more information, contact Kathleen Anderson, (202) 382-9055.

U.S. - Canada Free Trade Agreement

The elimination of trade barriers will provide both the United States and Canada with increased export opportunities. Provisions of the U.S.-Canada Free Trade Agreement include:

- Removal of trade distorting subsidies and tariffs within 10 years,
- Exemption from meat import laws, subject to certain conditions,
- Expansion of Canadian quotas for poultry, poultry products, and eggs,
- Elimination of Canadian import licenses for U.S. wheat, barley, oats, and grain products when both countries' support programs are equal,
- Harmonization of technical regulations affecting food and beverages.

In addition, since January 1990 the United States and Canada have been officially exchanging data regarding trade between the two countries. This is to correct for a chronic under-reporting problem which is estimated to account for nearly 50 percent of reported agricultural exports.

Imports Continue at a Record Pace in July

U.S. agricultural imports for July totaled $1.8 billion, down 3 percent from June, but up 6 percent from a year ago. This was the second highest level on record for the month of July and brings the fiscal year-to-date total to $19.1 billion, in line with the record forecast for fiscal 1990 of $22.5 billion.

Competitive product imports have been strong all year and for July were $1.4 billion, up 16 percent from a year ago. Cumulative competitive imports through July were $14.3 billion, up by $1.4 billion from last year.

Live animal imports continue to be very strong in fiscal 1990 and are now forecast to reach $1 billion for the year. This revised forecast is up $200 million from May's forecast and 25 percent above fiscal 1989's $740 million level. Cumulative-to-date imports of live animals totaled $913 million, up $270 million from last year. Expanded imports from Mexico and Canada account for the increase.

Competitive imports should reach a record $16.7 billion.

Fiscal year-to-date pork and beef imports are up $329 million, due largely to increased imports from Australia (up $215 million), Canada (up $93 million), and the EC (up $38 million). Imports are forecast to reach $2.6 billion for the fiscal year, up 13 percent from 1989's level.

July imports of cheese and casein totaled $83 million, bringing the cumulative-to-date total to $647 million, up $193 million over last year. Import volume is forecast to increase 19 percent this year. Most of the increase in cheese and casein imports comes from the EC and New Zealand.

U.S. Agricultural Imports by Major Product Sector
July 1990 Versus Month-ago and Year-ago

Import Category	July 1990	Month Ago	Year Ago	% Change From June'90	% Change From July'89
	-- Million $ --				
Total competitive	1,354	1,372	1,164	-1	16
Fruits, incl. juices	176	201	109	-12	61
Wines & beer	160	110	154	45	4
Vegetables	123	238	123	-48	0
Beef & veal	153	120	146	28	5
Dairy/poultry	109	52	91	110	20
Pork	94	60	53	57	78
Total noncompetitive	448	490	531	-9	-16
Coffee & products	150	203	234	-26	-36
Cocoa & products	89	81	62	10	43
Bananas/plantains	76	72	76	5	0
Rubber/allied gums	50	62	83	-19	-40
Spices	22	20	29	10	-24
Tea	12	10	12	20	0
Total agri. imports	1,802	1,862	1,695	-3	6

Source: Commodity Trade Analysis Branch, Economic Research Service,

Imports of fruits and juices in July totaled $176 million--up 61 percent ($67 million) from last July's level and up 14 percent for the year-to-date. Juice imports from Brazil, which supplies over 50 percent of U.S. imports, totaled $491 million, up $96 million over last year. Fresh fruit imports from Ecuador and Chile, which supply over 40 percent of U.S. imports, totaled $564 million so far this fiscal year, up 30 percent ($139 million) over last year.

Noncompetitive imports totaled $448 million for July and $4.7 billion for the year-to-date. Fiscal 1990 imports are still forecast to reach $5.8 billion --down $440 million from 1989's total. Imports forecast to decrease include coffee (down $170 million) and rubber (down $205 million).

Coffee imports so far this year totaled $1.7 billion, a 13-percent drop from the year-ago level. Volume is up by 35 percent, however. Imports from Mexico to-date totaled $365 million, up 14 percent from last year. Brazil's sales to the U.S. are down 40 percent ($186 million) from last year, dropping Brazil from the largest to the third largest supplier.

Other coffee suppliers showing significant gains this year include Thailand, Guatemala, and Honduras, each up by over 200 percent in volume and 80 percent in value from year ago levels. The Ivory Coast and the Philippines are each down by over 50 percent in volume and 70 percent in value this fiscal year.

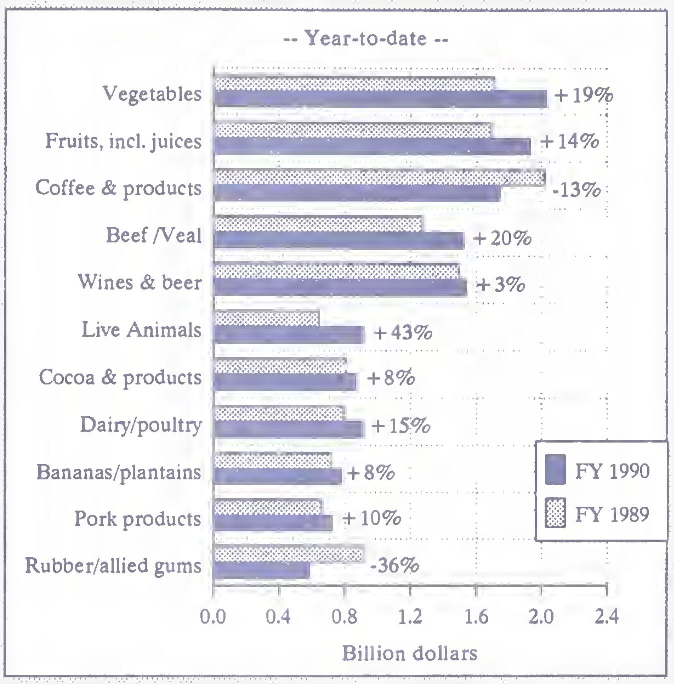
For more information, contact James Johnson at (202) 382-9522.

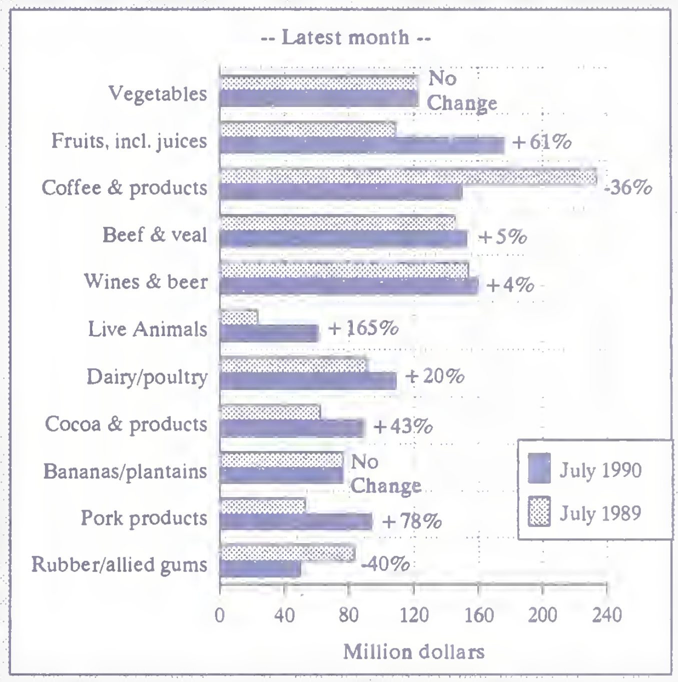
Noncompetitive imports do not compete with U.S. production and include: bananas/plantains, coffee (incl. processed), cocoa (incl. processed), rubber/allied gums, spices, essential oils, tea, and carpet wools.

U.S. Agricultural Import Summaries

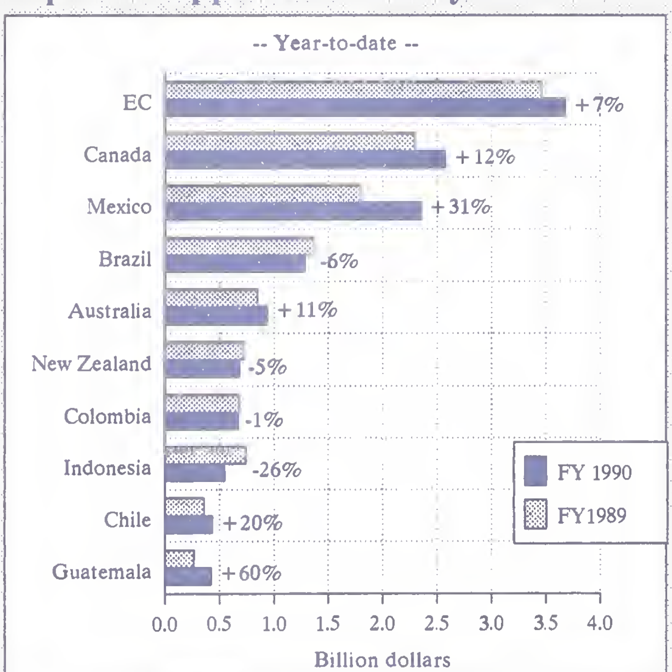
October-July and Latest Month Comparisons

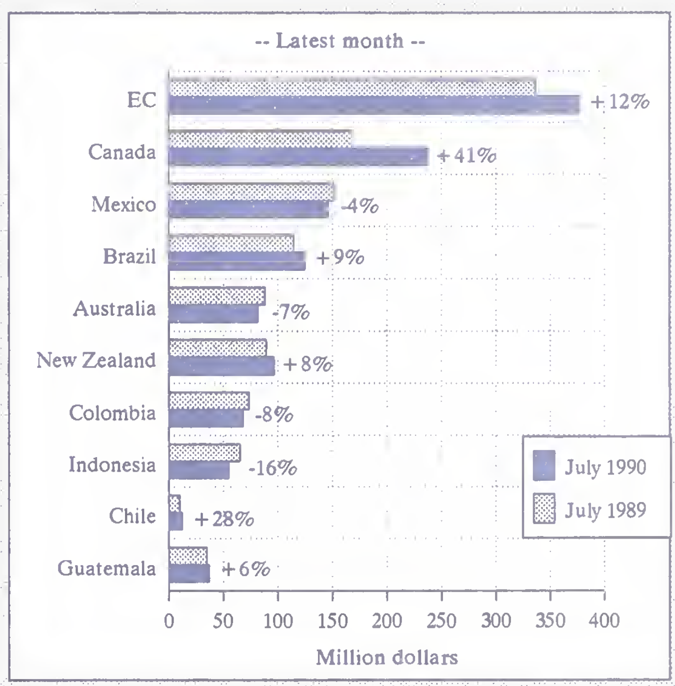
Product Summary





Top Ten Suppliers Summary





Note: Percentages are computed as the change from a year ago.

Thailand's Development Invites Comparisons to Korea, Offers Growing Market for U.S. Agriculture

A recent analysis by FAS indicates that Thailand could be among the top 15 "Best Market Prospects" for U.S. agricultural exports over the next five years. One of the major reasons for this optimism is the expectation that the rapid economic growth the country has experienced over the past decade will continue through the mid-1990's.

Thailand's economic expansion in the 1980's was fueled by an export-oriented manufacturing sector. This has invited comparisons between the economies of Thailand and Asia's newly industrialized countries (NICs), particularly South Korea.

Both Thailand and Korea exhibited remarkable growth during the 1980's, particularly in the last half of the decade. Korea reached double-digit growth for three consecutive years from 1986 to 1988 with a peak of 12.4 percent in 1986. If Thailand reaches the 10 percent growth projected for 1990, it will have registered three consecutive years of double-digit growth with a peak of 13.2 percent in 1988.

There are a number of other similarities between the economic development indicators of Thailand and Korea which support the observation that Thailand is following the development pattern established by Korea. Korea's real per capita GDP reached $820 in 1970. Thailand reached $817 in 1985. Korea's manufacturing share of GDP reached 21 percent in 1970. Thailand's reached 21 percent in 1980. Korea's rate of growth in manufacturing exports averaged 27.5 percent from 1975-79. Thailand averaged 27.2 percent from 1986-90.

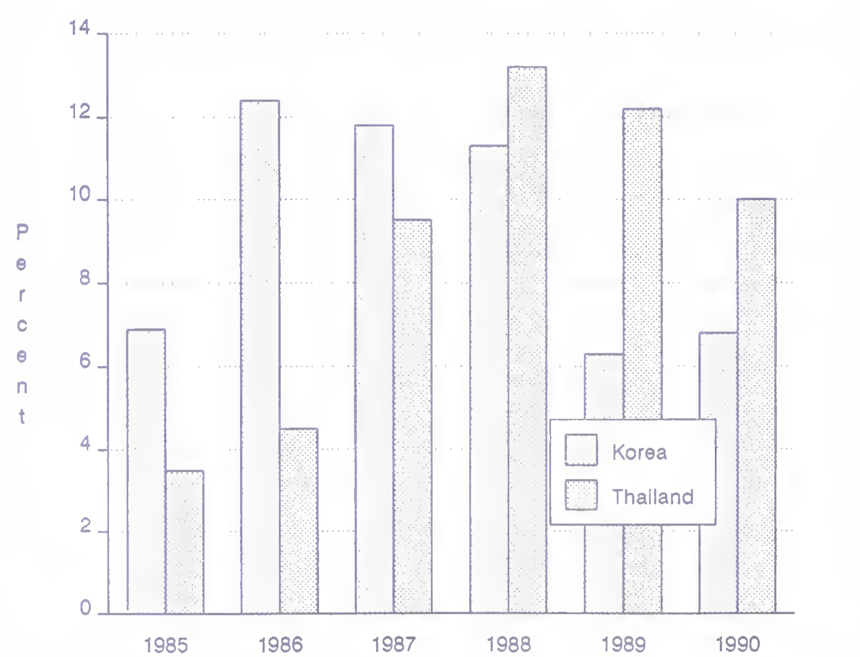
Most of the similarities between the two countries focus around export promotion and the development of the manufacturing sector. Major differences begin to arise, however, with the structure of the respective agricultural sectors.

Despite the rapid rise in its manufacturing sector, Thailand is still a predominantly agricultural economy. Nearly 70 percent of its labor force is currently employed in the agricultural sector compared with 18 percent in Korea.

Thailand also remains Asia's premier producer of agricultural goods with rice, rubber, grains and sugar dominating its exports. While Thai agricultural export policy emphasizes export expansion, stringent import controls are placed on products which compete with local production. Thailand utilizes high tariffs, quotas and outright prohibition to protect domestic producers and industries. Reduction in the level of import protection through the Uruguay Round negotiations may improve access to this growth market and lead to significant new opportunities for U.S. exporters.

The fact that Thailand is generally following the same development path as Korea, with a basic divergence in the agricultural sector, should provide some valuable lessons and opportunities for U.S. agricultural

Thailand and Korea Experience Rapidly Expanding Economies in the 1980's



Source: Economist Intelligence Unit

exporters. Like Korea before, Thailand has developed an industry in textiles and leather footwear which has translated into rapid growth in the imports of cotton and hides and skins.

Unlike Korea, Thailand's large agricultural base has allowed it to become a major exporter of livestock products, particularly poultry. This has made Thailand a major importer of soybean meal and other feeds. An analysis of the market situation in Thailand for these three major commodities--cotton, hides and skins, and soybean meal--is outlined below:

Cotton

Thailand's textile industry, which earned 14.5 percent of the total Thai export earnings in 1989 has grown to be a major contributor to the country's economic expansion. Thai textile exports more than doubled in three years and totaled $2.6 billion in 1988. They are expected to show further growth in the 1990's and exceed $3 billion in sales.

Growth in Thailand's textile industry offers great opportunity to cotton suppliers.

Rapid growth of Thailand's textile exports opened a great opportunity to world cotton suppliers during the late 1980's. Thailand's cotton imports, which totaled only $88 million in 1982, have increased steadily throughout the 1980's at an average rate of 13 percent a year. By 1988, these imports reached $319 million, the highest value in the past seven years, making it the world's 5th largest importer of cotton.

Development in Thailand and Korea: Similarities and Differences

Economic Indicators	1970	1975	1980	1985	1990
Per Capita GDP (US$)					
Korea	820	1,219	1,638	2,206	3,200
Thailand	460	527	689	817	970
Mfc. Share of Exports (%)					
Korea	77	82	90	91	94
Thailand	10	18	29	39	52
Mfc. Share of GDP (%)					
Korea	21	26	30	32	37
Thailand	16	19	21	22	25
Ag. Share of GDP (%)					
Korea	26	24	15	12	10
Thailand	25	27	23	17	16
Ag. Labor Force (%)					
Korea	49	42	36	26	17
Thailand	80	75	70	69	68

Source: World Bank and TEID

The U.S. has been traditionally a major raw cotton supplier to Thailand. During the early 1980's, U.S. cotton shipments accounted for over half of Thailand's imports. However, in the mid-1980's, U.S. market share dropped substantially to an average of 14 percent. Although U.S. cotton exports to Thailand have increased modestly the past few years, U.S. market share remained near 20 percent.

The United States' loss of market share has been due mainly to lower prices from other major cotton exporting countries such as Pakistan, the People's Republic of China, and Sudan. For example, Pakistan's market share has grown from 6 percent during the early 1980's to over 12 percent by the late 1980's.

However, recent developments look promising for U.S. exports in the future. Tightening cotton supplies in China, Pakistan, and other major producers reflect recent efforts by those countries to increase domestic textile production and de-emphasize raw cotton exports.

This has benefitted U.S. cotton exports to Thailand as reflected by a healthy 30 percent market share predicted for marketing year 1989-90. Thailand is expected to increasingly focus upon the manufacture of up-scale textile products in the future, a fact that should bode well for U.S. cotton.

Hides & Skins

Thailand's leather industry, largely represented by footwear products, also saw tremendous growth in the late 1980's. Thailand's exports of footwear have increased more than fivefold between 1983 and 1988, from $70 million to $386 million.

As the country's leather industry prospered, Thai imports of hides and skins multiplied. Thai imports of hides and skins from the world totaled $6.7 million in 1982. By 1988, total imports had increased nearly tenfold to $65 million, ranking Thailand as the 17th largest importer in the world and growing.

U.S. exports of hides and skins to Thailand also increased during the 1980's. Thai imports from the United States were recorded at only $76,000 in 1980. By 1989, sales had grown to $4 million. Although U.S. hides and skins exports to Thailand have risen in recent years, they are dwarfed by the exports originating from the Asian and Oceanian countries such as China, Australia and New Zealand. In fact, U.S. market share of the hides and skins market, which ranged at around 10 percent in the early 1980's, dropped to less than 5 percent by the end of the decade. As Thai imports continue to grow in the years ahead, more export promotion by U.S. suppliers could lead to increased market share and sharply expanded sales.

Soybean meal

The livestock industry, in particular its poultry sector, is another booming industry contributing to the fast-growing Thai economy. Thailand's poultry production in recent years has expanded in response to increased domestic and foreign demand. Thailand's poultry meat exports, which compose almost all of the country's total meat exports, have more than tripled in four years and registered a record level of $199 million in 1988.

Poultry meat exports became Thailand's fifth largest agricultural export earner. Japan and other neighboring Asian countries such as Singapore, the Philippines, and Hong Kong are the leading markets. In fact, Thailand has become a major U.S. competitor in the Asian poultry meat markets. This is especially true in Japan where Thailand held 38 percent of Japan's poultry meat import market share by 1987.

Boom in poultry production creates rising demand for imported feed.

Strong growth in the poultry sector has increased domestic demand for protein meal, especially that of soybean meal. Thailand's soybean meal consumption has increased an average of 19 percent a year during the last 20 years and reached 464,000 metric tons in 1988.

Though much of this demand was met through increased domestic production, imports also expanded. Between 1970 and 1983, Thailand's soybean meal imports rose from 1,000 tons to 230,000 tons, an average annual growth rate of 62 percent. China, the United States, and the European Community (EC) were the leading suppliers.

However, the Thai Government imposed import restrictions on soybean meal in 1984 to encourage domestic production. Since then, Thailand's imports of soybean meal have been averaging only 210,000 tons a year, primarily from China.

Under the Government import restrictions, U.S. exports of soybean meal to Thailand have suffered. Between 1980 and 1983, the United States exported an annual average of $3.5 million worth of soybean meal. However, after 1984, U.S. exports were sporadic and virtually nil in both 1988 and 1989. A high surcharge levied on soymeal imports currently makes U.S. suppliers noncompetitive.

Many observers believe, however, that the domestic poultry industry's fast growing demand for soybean meal will not be met by domestic production alone. This means that Thailand must eventually rely more on imports for its supply of soybean meal. Even with anticipated increases in domestic production, USDA expects protein meal demand will outstrip supply by 1.7 million tons in the near future, suggesting significant opportunities for foreign suppliers, including U.S. exporters.

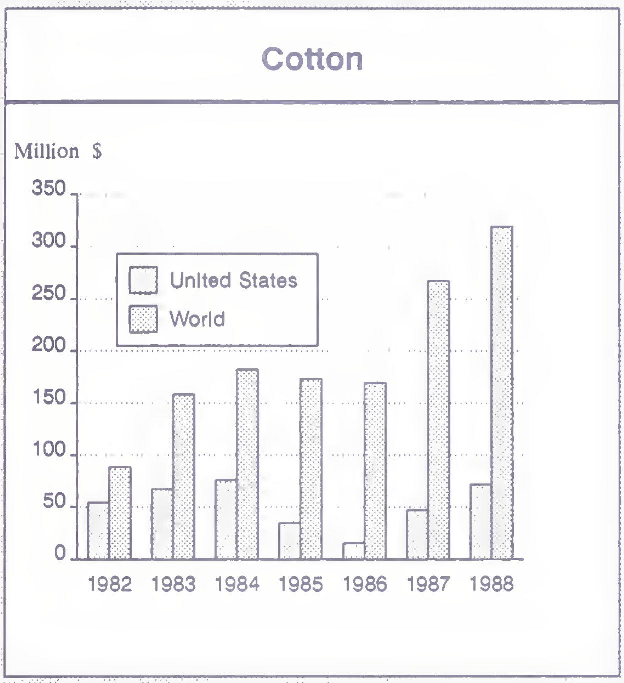
Conclusion

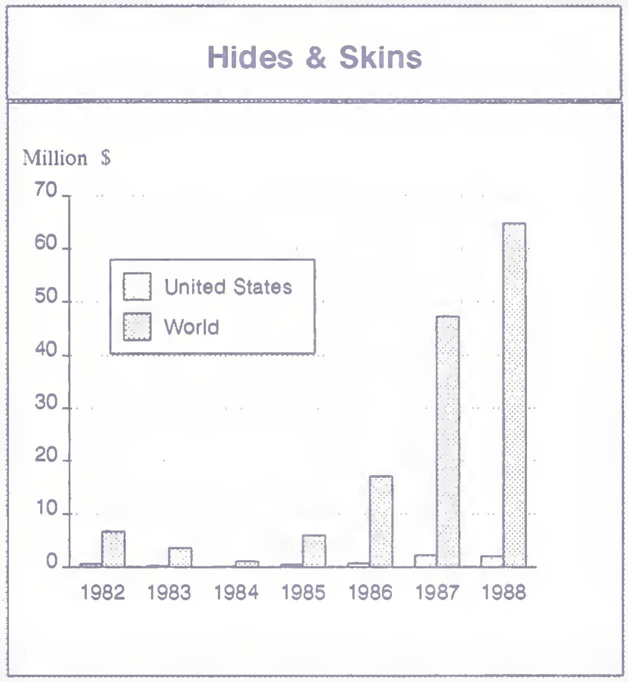
With its foundation of a strong agricultural sector, a rapidly expanding export-oriented manufacturing sector, growing investment opportunities, and a low cost but well-educated labor force, Thailand may become Asia's newest NIC. This, combined with a less restrictive import regime that would follow a successful conclusion to the Uruguay Round, offers opportunities and challenges for U.S. agricultural exporters as they try to maintain their position as a leading supplier of agricultural products to a country whose agricultural imports are expected to expand considerably in the years ahead.

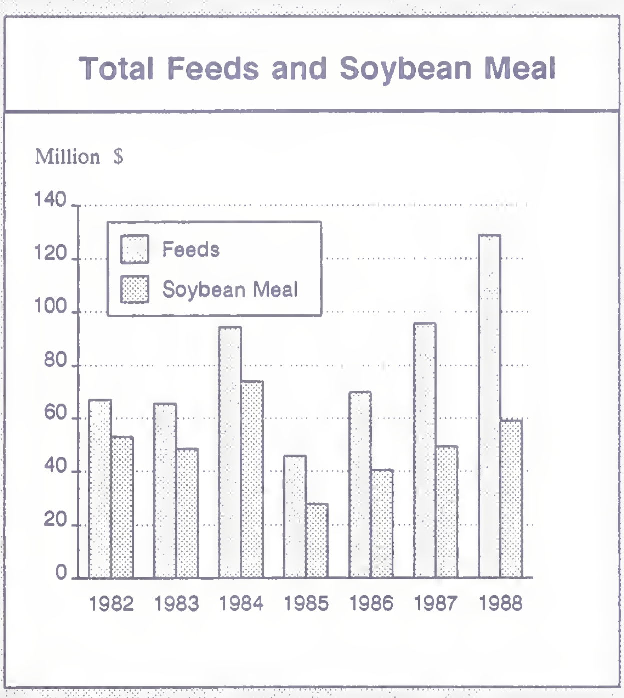
For more information, contact Emiko Miyasaka at (202)382-1294.

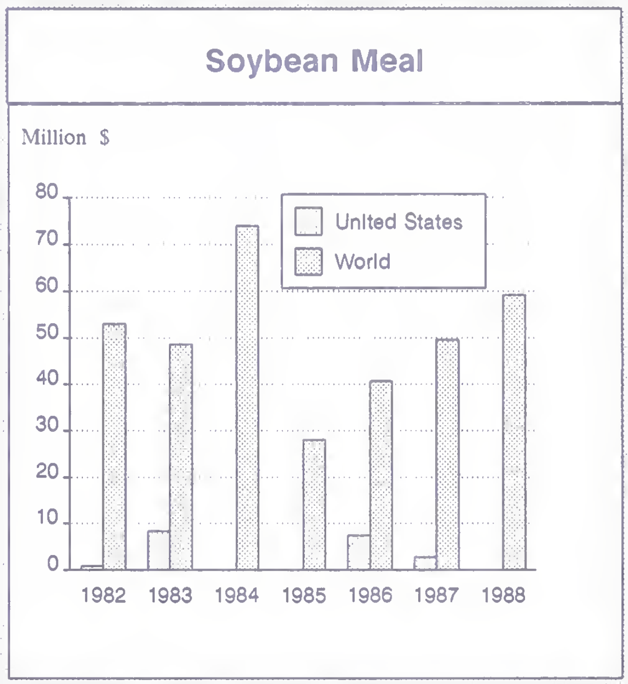
Thai Imports of Major Agricultural Commodities

United States and the World









Trade Policy Updates

Update on Uruguay Round

GATT Member Countries are committed to submitting "country lists" by October 1, which detail the specifics of their agricultural policies. This is to be followed with proposals by October 15. From this point, participants will negotiate final commitments on the reduction of suport and protection and new GATT rules and disciplines to govern agricultural trade. The entire agreement will be completed at a ministerial-level meeting in Brussels, beginning December 3.

Prospects of a U.S.-Mexico Free Trade Agreement (FTA)

After a visit on June 10, 1990 by Mexican President Salinas, Presidents Bush and Salinas issued a joint statement concerning plans for future U.S.-Mexico FTA talks. The announcement contained the first written statement of the shared vision for the content of a U.S.-Mexico FTA, which includes: the gradual and comprehensive elimination of trade barriers (including the reduction of import tariffs and the elimination of non-tariff trade barriers such as import quotas, licenses and standards); the comprehensive protection for intellectual property rights; the establishment of expeditious dispute settlement procedures; and the adoption of measures that expand the flow of goods, services, and investment. The Presidents directed their respective trade officials to undertake consultations and preparatory work needed to initiate such negotiations.

On August 8, 1990, U.S. Trade Representative Carla Hills and Mexican Secretary of Commerce and Industrial Development, Dr. Jaime Serra Puche, jointly recommended to Presidents Bush and Salinas the formal initiation of negotiations on a comprehensive FTA. Upon agreement by President Salinas, President Bush announced that he expects to notify Congress formally of the intent of the United States and Mexico to negotiate on an FTA. On August 21, 1990, President Salinas formally proposed initiation of negotiations for a free trade agreement between the United States and Mexico. Having received a formal "request," President Bush may now notify Congress of the Administration's intent to negotiate a free trade agreement with Mexico (which the President is expected to do in September).

Brazil, Argentina, Uruguay and Chile Agree to Create a Southern Cone Free Trade Zone

Ministers from four South American countries announced the results of their August meeting on establishing a regional free trade zone. Argentina, Brazil, and Uruguay reaffirmed their goal to establish a common market by the end of 1994. Chile expressed its interest in joining these countries to establish a "free trade space" by the end of 1995. Paraguay, which is in the process of acceding to the GATT, was also invited to join. The participants agreed on the desirability of creating a free trade zone, open to all ALADI (Latin American Integration Association) members, by the end of 1995.

Dairy Production Quota Values Slipping in Canada

Industry observers are reporting that the value of Canada's dairy production quota (i.e., its asset value) has declined in both Ontario and Quebec. The reason given for this decline is uncertainty over the outcome of the Uruguay Round, specifically over the likely success of Canada's proposal for establishing a "strengthened and clarified" GATT Article XI.2(c). An individual quota is required by each producer in order to be able to legally deliver milk. Article XI.2(c) is the section of the GATT under which Canada imposes quantitative import restrictions for dairy products to maintain the above-world-market prices which Canadian dairy farmers receive. In March, Canada tabled a proposal on Article XI.2(c) that would increase the ease with which countries could justify quantitative import restrictions such as those that Canada maintains on dairy products.

Soviet Economic Reform Program Announced

The Russian Republic's parliament has adopted a far-reaching economic reform package endorsed by Soviet President Mikhail Gorbachev. The reform package is referred to as the "500 Days" plan. Provisions of the plan include selling state-owned property, price liberalization, subsidy and spending reductions, a new banking system, establishment of a stock exchange, and deregulation of foreign currency flows. The plan calls for radical land reform allowing farmers to withdraw from collective farms and receive "their share of the land." A team of advisers to Boris Yeltsin, president of the Russian Republic, drafted the "500 Days" plan with cooperation of a close economic aide of President Gorbachev.

EC Aide Memoire Presented to the State Department on "Big Green"

The European Community (EC) registered its agreement with the basic objectives of the California Environmental Protection Act of 1990 ("Big Green") in an aide memoire sent to the State Department in mid-August. Though supportive of the thrust of Big Green, the aide memoire focuses on the EC concern that individual state regulatory initiatives could increase market fragmentation, thus adversely affecting international trade. The EC points out the importance of international standards to the current elaboration of GATT disciplines on sanitary and phytosanitary measures and warns that state standards in the United States, which deviate from international standards, could endanger this initiative.

EC Closes U.S. Resident Veterinary Inspector Position

The EC Commission recalled its resident U.S. Veterinary Inspector in Washington, DC as of September 1, 1990, for budgetary reasons. The Commission feels that the 32 listed slaughtering plants can be effectively served by the Veterinary Inspectorate in Brussels. Several plants have been delisted over the past year by the EC for failure to meet the standards set out in the EC's Third Country Meat Directive. The EC Standing Veterinary Committee has called for increased inspections of U.S. plants for trichinae and post mortem procedures to begin in September. Strict enforcement of EC post mortem inspection procedures, on which the United States and the EC until now have agreed to disagree, would likely result in the delisting of several additional U.S. plants.

Taiwan's 1991 Tariff Cuts

Taiwan's Economic Authorities have begun deliberation on a new round of tariff reductions proposed for 1991. Tariff cuts, once finalized, will be implemented on January 1, 1991, according to Taiwan Custom Department Officials. Approximately 2,000 items are being slated for Taiwan's Trade Action Plan (TAP), which was announced in March 1988 as a means of reducing Taiwan's trade surplus with the United States. However, to date, tariff cuts for agricultural products have been insignificant and have failed to cover a number of the products for which the United States holds a trade interest. The current average duty on the 180 or so items making up the U.S. tariff reduction request list remains at about 30 percent with fresh fruit assessed rates between 40-50 percent.

Materials Available

- Comparisons of U.S. and EC Support for Agriculture (August 1990)
- Foreign Agricultural Trade and Market Information System (Revised August 1990)
- U.S. Sugar Program (Revised August 1990)
- Agricultural Trade Policy and Trade for Eastern Europe and the Soviet Union (August 1990)

Requests for copies of materials listed above may be sent to the Trade Assistance and Planning Office, Foreign Agricultural Service, 3101 Park Center Drive, Suite 1103, Alexandria, VA 22302. Tel: (703) 756-6001. FAX (703) 756-6124.

Market Updates

Soviets Will Not Meet Wheat Commitment under Agreement

With 1 month remaining under the seventh year of the U.S.-Soviet Union long-term agreement, the Soviet Union apparently will not meet the minimum purchase level of 4 million tons of wheat by October 1. Current purchases are at 3.8 million tons. The Soviet Union's larger crop this year and its need for credit are reasons for the shortfall in purchases.

Soviet Union Negotiates Purchases of East German Meat

According to the Agricultural Attache in Berlin, the Soviets are negotiating the purchase of 100,000-130,000 tons of East German beef and pork. Valued at West German prices, the hard currency value of the purchase could approach $760 million. Earlier this year, 50,000 tons each of pork and beef were shipped from East Germany to the Soviet Union. In 1989, the Soviet Union imported 150,000 tons of beef and 220,000 tons of pork from all origins. USDA is estimating that Soviet beef and pork imports this year will rise to 200,000 and 280,000 tons, respectively.

U.S. Corn Not Competitive with EC Feed Wheat

Indications from various sources are that Hungary and some neighboring East European countries will have major feed grain import needs due to drought-reduced harvests. However, importers in those countries are complaining that U.S. corn is not competitive, running $30-40 per ton higher than European feed wheat because of EC subsidies. This situation is being watched closely as a possible indicator of similar questions that may arise in the Soviet Union.

Reduced EC Corn Crop Could Mean More Imports of U.S. Corn

Reduced corn crop prospects in France, Spain, and Greece have caused EC corn prices to surge, and another $25-per-ton increase would likely make third country imports feasible. The situation could lead to increased U.S. corn exports, as the United States currently supplies about 90 percent (2.4 million tons forecast in 1989/90) of the EC's third country imports. EC imports have passed primarily through Spain with a reduced import levy under the Spanish accession agreement. One possible solution to the potential supply shortage would be to allow U.S. corn exports to all EC member states with a reduced import levy in 1990/91.

East German Feed Grain Consumption Declines

Introduction of the Common Agricultural Policy (CAP) in East Germany and the subsequent improved availability of oil meals and non-grain feed ingredients will lead to an expected 2-million-ton (50-60 percent) decline in 1990/91 use of grain for feed. The shift in feed use is expected to reduce total 1990/91 feed grain imports by nearly 50 percent (about 1.2 million tons), and could possibly increase a unified Germany's feed grain exports by a like amount.

Germany Offers Additional Subsidies

The EC has authorized a reunified Germany to offer its own export subsidies on East German grain sales to the Soviet Union and East Europe made prior to the reunification date of October 3, 1990. These subsidies would be in addition to current EC subsidies and would cover about 600,000 tons of barley, wheat and rye already sold. The authorization appears open-ended until October 3 as any further sales made prior to that date would be also eligible for the additional subsidy, and could therefore be offered at lower prices than other EC grain. With the prospect of several million tons of surplus East German grain now eligible for EC export subsidies, this authorization not only gives sellers of German grain a competitive advantage over other EC grain offer prices, but could pressure world prices downward even further.

Korea Raises Imported Beef Prices

Korea's Ministry of Agriculture, Forestry, and Fisheries (MAFF) raised the prices of packed imported beef 13-16 percent to curb excessive beef consumption. A MAFF official said that the low price of imported beef has not helped to bring down the price of domestic beef but only boosted consumption. This confirms the long-held U.S. position that Korea's per capita beef consumption has artificially been held down by the Korean government. MAFF estimated annual beef consumption in 1990 to reach 170,000 tons, 80,000 tons imported and 90,000 from domestic consumption.

Korean Beef Tender Issued and Raises Doubts on Beef Accord

The Korean Livestock Products Marketing Organization (LPMO) has now rejected the crucial components of an acceptable simultaneous buy/sell (SBS) system and pressed forward with a substitute system. This other system more closely resembles its current monopolistic buying practices rather than a SBS system allowing more open, natural commercial trade practices. A preliminary review of a recent tender for about two sea containers of U.S. beef seems to show that the industry will not consider this tender to be an acceptable SBS arrangement. The LPMO is retreating on commitments made in the April 1990 U.S.-Korea Beef Agreement. Under the accord, the LPMO agreed to the establishment of an SBS system to be approved by both governments no later than October 1, 1990, based on recommendations from an industry-to-industry dialogue.

Kuwait Buys Wheat for Egypt

The Kuwait Flour Mills and Bakeries Company reportedly bought another 100,000 tons of U.S. wheat for Egypt. This is the third purchase since the Egyptian food program began last July, but it is the first since the Iraqi takeover. The purchase was authorized by the Kuwait Investment Office in London. All three purchases consisted of U.S. white wheat under the Export Enhancement Program (EEP). No direct EEP wheat sales to Egypt have occurred since December 1989. Kuwait purchases U.S. wheat in cash.

Japan Cuts Soybean Purchases on Oversupply Concerns

Japanese soybean buying has slowed in recent weeks, with purchases for October shipment now standing at a mere 4,000-5,000 tons of U.S. soybeans. Traders are faced with a large surplus of soybeans and stagnant demand for soybean meal. With falling livestock feed costs in response to these large stockpiles of soybean meal, Japanese oilseed crushers are reluctant to place orders with traders until the market shows some signs of firming. Japan is expected to import 200,000-250,000 tons of U.S. soybeans for October shipment, about 25 percent below their customary monthly buying level. Another reason cited for the reluctance to import soybeans at this time is higher freight costs, the result of soaring fuel costs brought on by the present instability in the Middle East. However, traders said they did not expect this to delay negotiations unless freight costs continue to climb.

Thailand's Textile Sector Booming, U.S. Cotton Gains Ground

Thailand's textile sector, fueled by growing garment and home textile imports, continues to expand. Textile exports grew an unprecedented 25 percent in 1989 to $3.2 billion. While predictions for 1990 show some moderation (a 16.5 percent rate of growth is predicted), exports are likely to reach a new record of $3.8 billion. Thailand's imports have grown progressively in recent years. Reflecting this growth, USDA's September estimate for Thailand's marketing year 1990/91 imports was raised to 1.3 million bales, a 49-percent increase over 1987/88. U.S. cotton commitments to Thailand for 1990/91 as of August 23, 1990 were 146,580 bales, more than double the previous year.

...Market Updates

Mexican Rice Imports Not Promising

Prospects for U.S. rice exports to Mexico over the next several months are not promising, as Conasupo, the quasi-government buying agency, has indicated it has about 100,000 tons of surplus rice. A significant fall in imports by Mexico, which became the United States' second largest rice market in 1989 (importing all 279,115 tons of its rice from the United States) could put further downward pressure on U.S. rice prices. This recent report states that imports may dwindle to less than 10,000 tons over the next six months, with no pick-up until domestic crop supplies are exhausted in spring of 1991.

Italy Adopts Maleic Hydrazide Tolerance Level for Tobacco

The Italian government recently published the regulation formally adopting a tolerance level for maleic hydrazide (MH-30) in cigarettes. Maleic hydrazide is a growth regulator applied to tobacco plants to inhibit axillary bud growth (suckers). The chemical is widely used in the United States and has resulted in leaf residue levels on flue-cured tobacco in excess of 100 parts per million (ppm) in most years. The tolerance level established by the recent regulation is reported to be 80 ppm in the finished product. This would be the same as the voluntary tolerance that has been in effect in Germany for many years. The 80 ppm tolerance is not expected to cause any major disruption in tobacco exports to Italy, which amounted to $38.5 million during 1989. The 80 ppm tolerances in Germany and Italy could precede an EC-wide standard.

Environmental Protection Agency Continues Restricting Wines with Procymidone Residues

On September 19, the Environmental Protection Agency (EPA) signed a Federal Register Advanced Notice of Proposed Rulemaking (ANPR) that would continue the current policy of not permitting any importation of EC wine with a detectable level of procymidone, a fungicide used in growing. Procymidone is not registered for use in the United States. The EC has been lobbying officials recently to obtain a short-term easing of the Food and Drug Administration's (FDA) practice of detaining all shipments of imported wine containing any procymidone residues. The EC had hoped for a relaxation of current policy in time for the fall shipping season, when France and Italy traditionally ship 40 percent of annual sales. EPA has indicated that it may be able to propose an interim tolerance level in the summer of 1991. FDA sampling of imported wine from March to September of this year has shown that 21 percent of French and 7 percent of Italian wines in the sample contained detectable levels of procymidone. In 1989, wine imports from France were valued at $471 million, and Italian wine imports totaled $253 million.

Recent Changes in P.L. 480 Agreements and GSM Allocations

On August 15, Zaire signed a first amendment to its fiscal 1990 P.L. 480, Title I agreement for $7 million worth of cotton and $3 million worth of wheat. Zaire's cumulative Title I program for fiscal 1990 is $16 million. On August 26, Egypt signed a first amendment to its FY 1990 P.L. 480, Title I agreement for $50 million worth of U.S. wheat. The first of two tenders will be taking place August 30. Egypt's cumulative Title I program for fiscal 1990 is $203 million. On August 31, Peru signed the first amendment to its fiscal 1989 P.L. 480, Title I agreement for $20 million worth of U.S. wheat (approximately 155,000 tons). The amendment also extended the agreement's supply period through fiscal 1991. Peru's cumulative Title I program for fiscal 1989-1991 is $30 million.

USDA has authorized an additional $40 million in credit guarantees for the sale of agricultural commodities to Algeria for fiscal 1990. The total fiscal 1990 allocation has been increased from $675 million to $715 million.

For more information, contact Ron Croushorn at (202) 382-9148.

U.S. Agricultural Exports by Major Commodity Group

Monthly and Year-to-date Performance Indicators, and Fiscal 1990 Forecasts

	July 1989	July 1990		October-July 1988/89	October-July 1989/90		Fiscal Year 1989	Fiscal Year 1990 (f) 1/	
	Bil.$	Bil.$	% Chg	Bil.$	Bil.$	% Chg	Bil.$	Bil.$	% Chg
Grains & feeds 2/	1.379	1.101	-20%	14.408	13.830	-4%	17.088	16.0	-6%
Wheat	0.585	0.304	-48%	4.807	3.557	-26%	6.018	4.4	-27%
Wheat flour	0.009	0.010	9%	0.187	0.180	-4%	0.255	0.2	-22%
Rice	0.093	0.036	-61%	0.806	0.719	-11%	0.956	0.8	-16%
Feed grains 3/	0.501	0.533	6%	6.424	7.031	9%	7.249	8.0	10%
Corn	0.404	0.465	15%	5.489	6.149	12%	6.107	7.0	15%
Feeds & fodders	0.122	0.129	6%	1.528	1.525	0%	1.822	NA	NA
Oilseeds & products	0.260	0.299	15%	6.181	5.577	-10%	6.779	6.1	-10%
Soybeans	0.123	0.134	9%	3.837	3.577	-7%	4.088	3.8	-7%
Soybean meal	0.031	0.058	87%	1.239	0.880	-29%	1.313	1.0	-24%
Soybean oil	0.038	0.036	-5%	0.303	0.279	-8%	0.404	0.4	-1%
Other vegetable oils	0.028	0.027	-4%	0.327	0.335	2%	0.416	NA	NA
Livestock products	0.430	0.432	0%	4.510	4.512	0%	5.383	5.5	2%
Red meats	0.186	0.185	-1%	1.802	1.794	0%	2.136	NA	NA
Animal fats	0.038	0.033	-12%	0.431	0.393	-9%	0.524	NA	NA
Poultry products	0.061	0.065	7%	0.609	0.710	17%	0.730	0.8	10%
Poultry meat	0.044	0.046	4%	0.429	0.519	21%	0.513	NA	NA
Dairy products	0.043	0.065	51%	0.410	0.300	-27%	0.490	0.3	-39%
Horticultural products	0.332	0.442	33%	3.420	4.264	25%	4.086	5.0	22%
Unmanufactured tobacco	0.048	0.056	17%	1.144	1.237	8%	1.274	1.4	10%
Cotton & linters	0.290	0.157	-46%	1.723	2.368	37%	2.059	2.9	41%
Planting seeds	0.033	0.029	-13%	0.413	0.490	19%	0.498	0.6	20%
Sugar & tropical products	0.080	0.113	41%	0.985	1.170	19%	1.188	1.4	18%
Wood products 4/	0.498	0.489	-2%	4.778	5.385	13%	5.876	NA	NA
Total ag. export value	2.955	2.761	-7%	33.804	34.459	2%	39.574	40.0	1%

	MMT	MMT	% Chg	MMT	MMT	% Chg	MMT	MMT	% Chg
Grains & feeds 2/	9.122	7.638	-16%	97.207	88.480	-9%	115.104	NA	NA
Wheat	3.720	2.181	-41%	30.153	22.827	-24%	37.747	28.5	-24%
Wheat flour	0.036	0.044	22%	0.884	0.769	-13%	1.175	1.0	-15%
Rice	0.270	0.114	-58%	2.596	2.154	-17%	3.048	2.4	-21%
Feed grains 3/	4.233	4.331	2%	52.932	61.105	15%	60.448	69.2	14%
Corn	3.382	3.751	11%	44.903	53.282	19%	50.503	60.0	19%
Feeds & fodders	0.720	0.810	13%	9.272	9.208	-1%	11.010	11.0	0%
Oilseeds & products	0.767	0.992	29%	19.466	21.695	11%	21.279	NA	NA
Soybeans	0.446	0.563	26%	13.130	15.705	20%	14.115	16.9	20%
Soybean meal	0.122	0.262	115%	4.427	4.048	-9%	4.733	4.4	-7%
Soybean oil	0.074	0.056	-24%	0.551	0.516	-6%	0.754	0.7	-7%
Other vegetable oils	0.048	0.034	-29%	0.532	0.536	1%	0.682	NA	NA
Livestock products 5/	0.200	0.183	-9%	2.006	1.983	-1%	2.442	NA	NA
Red meats	0.071	0.054	-24%	0.592	0.560	-5%	0.715	0.7	-2%
Animal fats	0.103	0.094	-9%	1.118	1.067	-5%	1.369	1.3	-5%
Poultry products 5/	0.040	0.038	-5%	0.389	0.483	24%	0.471	NA	NA
Poultry meat	0.040	0.038	-5%	0.385	0.479	24%	0.465	0.6	29%
Dairy products 5/	0.036	0.043	19%	0.304	0.188	-38%	0.365	NA	NA
Horticultural products 5/	0.296	0.390	32%	3.272	3.829	17%	3.796	4.5	19%
Unmanufactured tobacco	0.007	0.009	29%	0.188	0.198	5%	0.212	0.2	-6%
Cotton & linters	0.199	0.098	-51%	1.267	1.491	18%	1.491	1.8	21%
Planting seeds	0.055	0.032	-42%	0.346	0.394	14%	0.494	NA	NA
Sugar & tropical products 5/	0.042	0.076	81%	0.627	0.791	26%	0.776	NA	NA
Total ag. export volume 5/	10.765	9.500	-12%	125.073	128.745	3%	146.431	148.5	1%

NA = Not available.

MMT = Million metric tons

1/ Export forecasts are from August 28, 1990, "Outlook for U.S. Agricultural Exports."
2/ Includes pulses and corn gluten feed and meal.
3/ Includes corn, oats, barley, rye, and sorghum.
4/ Wood products are not included in agricultural product value totals.
5/ Includes only those items measured in metric tons.

Source: U.S. Bureau of the Census and August 28, 1990, "Outlook for U.S. Agricultural Exports."

Weekly Quotations for Selected International Prices 1/

Dollars per metric ton	Week of 9/18/90	Month ago	Year ago
Wheat (c.i.f. Rotterdam) 2/			
Canadian No. 1 CWRS 13.5%	146	140	198
U.S. No. 2 DNS 14 %	134	138	180
U.S. No. 2 SRW	126	135	167
U.S. No. 3 HAD	143	145	184
Canadian No. 1 durum	153	158	191
Feed Grains (c.i.f. Rotterdam) 2/			
U.S. No. 3 yellow corn	113	125	116
Soybeans and Meal (c.i.f. Rotterdam) 2/			
U.S. No. 2 yellow soybeans	254	252	243
U.S. 44 % soybean meal	NQ	NQ	NQ
Brazil 48 % soy pellets	212	203	226
U.S. Farm Prices 3/ 4/			
Wheat	90	91	139
Barley	70	73	81
Corn	86	97	92
Sorghum	82	89	86
Broiler 5/	1,310	1,223	1,409
Soybeans 6/	225	225	231
EC Import Levies			
Common wheat	163	119	105
Durum wheat	191	141	156
Barley	143	105	109
Corn	151	110	140
Sorghum	155	118	145
Broilers	257	262	364
EC Export Restitution (subsidies)8/			
Common wheat	105	73	24
Barley	100	90	41
Broilers	256	276	524

NQ = No quote. NA = Not available. Note: Changes in dollar value of EC import levies, intervention prices, and export restitutions may be the result of changes in $/ECU exchange rates.

*1/ Mid-week quote. 2/ Asking price in dollars for imported grain and soybeans and soybean products, c.i.f. Rotterdam for nearby delivery. 3/ Five-day moving average. 4/ Target price for current marketing year in $/metric ton: wheat, $151; barley, $112; corn, $112; sorghum, $106; soybean loan rate, $166. 5/ Composite 12-city weighted average price for trucklot sales to be delivered to first receiver. 6/ Central Illinois processors bid to arrive. 7/ Buy-in equals 94% of intervention price plus full value of monthly increments. 8/ Figures represent restitutions awarded nearest to the listed dates, * denotes no award given since the previous month.*

Note: The EC intervention prices, which are usually included in this table, will resume in November when the EC begins buying-in.

Agricultural Trade Assistance

Exporters interested in programs and services provided by the Foreign Agricultural Service (FAS) may contact the Trade Assistance and Planning Office (TAPO). The TAPO serves as a single point of contact for persons who need foreign market information, export counseling, or guidance on what remedies are available under current law to assist those hurt by unfair foreign competition.

TRADE ASSISTANCE AND PLANNING OFFICE

Telephone (703) 756-6001
Facsimile (703) 756-6124

Additional information on particulars of FAS programs and services is available from operational offices within three administrative areas: Commodity and Marketing Programs, Export Credits and International Trade Policy.

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